

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Ontwa
Cass County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2006

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Ontwa, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Ontwa, Michigan, as of March 31, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Ontwa, Michigan, as of March 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in Note 10 to the financial statements, the Township recorded prior period adjustments to correct the understatement of certain governmental activities assets and liabilities, and, the omission of the business-type net assets of the sewer activity, and, where applicable, the corresponding fund understatements. An adjustment has also been recorded to reclassify the building inspection net assets from governmental activities to business-type activities, due to its reliance upon service charges to cover all operating costs, and, the corresponding Building Inspection Fund was reclassified from a governmental fund to a proprietary fund-type.

The budgetary comparison information on pages 29 through 33 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Ontwa has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Sigfried Crandall P.C.

November 10, 2006

BASIC FINANCIAL STATEMENTS

Township of Ontwa
STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 446,307	\$ 232,690	\$ 678,997
Receivables, net	<u>93,106</u>	<u>608,355</u>	<u>701,461</u>
Total current assets	<u>539,413</u>	<u>841,045</u>	<u>1,380,458</u>
Noncurrent assets:			
Restricted cash - contract covenant accounts	-	1,634,767	1,634,767
Receivables, noncurrent	-	4,471,849	4,471,849
Capital assets, net of accumulated depreciation	395,613	10,816,644	11,212,257
Deferred charges	<u>-</u>	<u>174,584</u>	<u>174,584</u>
Total noncurrent assets	<u>395,613</u>	<u>17,097,844</u>	<u>17,493,457</u>
Total assets	<u>935,026</u>	<u>17,938,889</u>	<u>18,873,915</u>
LIABILITIES			
Current liabilities:			
Payables	35,476	80,079	115,555
Contracts payable	<u>-</u>	<u>542,360</u>	<u>542,360</u>
Total current liabilities	35,476	622,439	657,915
Long-term obligations:			
Contracts payable	<u>-</u>	<u>7,932,033</u>	<u>7,932,033</u>
Total liabilities	<u>35,476</u>	<u>8,554,472</u>	<u>8,589,948</u>
NET ASSETS			
Invested in capital assets, net of related debt	395,613	2,342,251	2,737,864
Restricted for debt service	-	6,015,577	6,015,577
Unrestricted	<u>503,937</u>	<u>928,495</u>	<u>1,432,432</u>
Total net assets	<u>\$ 899,550</u>	<u>\$ 9,286,323</u>	<u>\$ 10,185,873</u>

See notes to the financial statements

Township of Ontwa
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program revenues</u>	
		<u>Charges for</u>	<u>Operating/ capital grants and contributions</u>
	<u>Expenses</u>	<u>services</u>	
Functions/Programs			
Governmental activities:			
Legislative	\$ 7,233	\$ -	\$ -
General government	211,600	16,595	-
Public safety	338,956	14,321	834
Public works	15,116	10,066	-
Health and welfare	164,595	-	-
Recreation and culture	815	-	-
Community and economic development	4,143	3,900	-
	<u>742,458</u>	<u>44,882</u>	<u>834</u>
Total governmental activities			
Business-type activities:			
Sewer	982,381	472,736	440,917
Building inspection	84,250	84,480	-
	<u>1,066,631</u>	<u>557,216</u>	<u>440,917</u>
Total business-type activities			
Totals	<u>\$ 1,809,089</u>	<u>\$ 602,098</u>	<u>\$ 441,751</u>

General revenues:

Taxes
State grants
Cable franchise fees
Investment return

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (7,233)		\$ (7,233)
(195,005)		(195,005)
(323,801)		(323,801)
(5,050)		(5,050)
(164,595)		(164,595)
(815)		(815)
<u>(243)</u>		<u>(243)</u>
 <u>(696,742)</u>		 <u>(696,742)</u>
-	\$ (68,728)	(68,728)
<u>-</u>	<u>230</u>	<u>230</u>
 -	 (68,498)	 (68,498)
<u>(696,742)</u>	<u>(68,498)</u>	<u>(765,240)</u>
 470,088	-	470,088
331,347	-	331,347
31,073	-	31,073
<u>22,560</u>	<u>49,343</u>	<u>71,903</u>
<u>855,068</u>	<u>49,343</u>	<u>904,411</u>
 158,326	 (19,155)	 139,171
<u>741,224</u>	<u>9,305,478</u>	<u>10,046,702</u>
<u>\$ 899,550</u>	<u>\$ 9,286,323</u>	<u>\$ 10,185,873</u>

See notes to the financial statements

Township of Ontwa
BALANCE SHEET - governmental funds
March 31, 2006

	<u>General</u>	<u>Police</u>	<u>Ambulance</u>	<u>Total</u>
ASSETS				
Cash	\$ 446,307	\$ -	\$ -	\$ 446,307
Receivables, net	<u>71,726</u>	<u>10,690</u>	<u>10,690</u>	<u>93,106</u>
Total assets	<u>\$ 518,033</u>	<u>\$ 10,690</u>	<u>\$ 10,690</u>	<u>\$ 539,413</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 14,096	\$ 10,690	\$ 10,690	\$ 35,476
Deferred revenue	<u>7,800</u>	<u>-</u>	<u>-</u>	<u>7,800</u>
Total liabilities	21,896	10,690	10,690	43,276
Fund balances:				
Unreserved, undesignated	<u>496,137</u>	<u>-</u>	<u>-</u>	<u>496,137</u>
Total liabilities and fund balances	<u>\$ 518,033</u>	<u>\$ 10,690</u>	<u>\$ 10,690</u>	<u>\$ 539,413</u>
Total fund balances				\$ 496,137
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				395,613
Certain assets are not considered available financial resources and, therefore, are deferred in the funds.				<u>7,800</u>
Net assets of <i>governmental activities</i>				<u>\$ 899,550</u>

See notes to the financial statements

Township of Ontwa**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds**

Year ended March 31, 2006

	<u>General</u>	<u>Police</u>	<u>Ambulance</u>	<u>Total</u>
REVENUES				
Taxes	\$ 140,898	\$ 164,595	\$ 164,595	\$ 470,088
State grants	332,181	-	-	332,181
Fines and forfeitures	12,333	-	-	12,333
Licenses and permits	37,264	-	-	37,264
Charges for services	26,358	-	-	26,358
Interest and rentals	22,560	-	-	22,560
Total revenues	<u>571,594</u>	<u>164,595</u>	<u>164,595</u>	<u>900,784</u>
EXPENDITURES				
Legislative	7,233	-	-	7,233
General government	208,434	-	-	208,434
Public safety	174,361	164,595	-	338,956
Public works	59,686	-	-	59,686
Health and welfare	-	-	164,595	164,595
Recreation and culture	815	-	-	815
Community and economic development	4,143	-	-	4,143
Total expenditures	<u>454,672</u>	<u>164,595</u>	<u>164,595</u>	<u>783,862</u>
EXCESS OF REVENUES OVER EXPENDITURES	116,922	-	-	116,922
FUND BALANCES - BEGINNING	<u>379,215</u>	<u>-</u>	<u>-</u>	<u>379,215</u>
FUND BALANCES - ENDING	<u>\$ 496,137</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 496,137</u>

Net change in fund balances - total governmental funds \$ 116,922

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Additions	55,596
Provision for depreciation	<u>(14,192)</u>

Change in net assets of *governmental activities* \$ 158,326

See notes to the financial statements

Township of Ontwa
STATEMENT OF NET ASSETS - proprietary funds
March 31, 2006

	Business-type activities		
	Enterprise funds		
	Sewer	Non-major	Totals
ASSETS			
Current assets:			
Cash	\$ 169,005	\$ 63,685	\$ 232,690
Receivables	608,355	-	608,355
Total current assets	777,360	63,685	841,045
Noncurrent assets:			
Restricted cash - contract covenant accounts	1,634,767	-	1,634,767
Receivables, non-current	4,471,849	-	4,471,849
Capital assets, net of accumulated depreciation	10,816,644	-	10,816,644
Deferred charges	174,584	-	174,584
Total noncurrent assets	17,097,844	-	15,463,077
Total assets	17,875,204	63,685	17,938,889
LIABILITIES			
Current liabilities:			
Payables	169,858	8,315	178,173
Contracts payable	542,360	-	542,360
Total current liabilities	712,218	8,315	720,533
Long-term liabilities:			
Contracts payable	7,932,033	-	7,932,033
Total liabilities	8,644,251	8,315	8,652,566
NET ASSETS			
Invested in capital assets	2,342,251	-	2,342,251
Restricted for debt service	6,015,577	-	6,015,577
Unrestricted	873,125	55,370	928,495
Total net assets	\$ 9,230,953	\$ 55,370	\$ 9,286,323

See notes to the financial statements

Township of Ontwa

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET

ASSETS - *proprietary funds*

Year ended March 31, 2006

	<i>Business-type activities</i>		
	<i>Enterprise funds</i>		
	<i>Sewer</i>	<i>Non-major</i>	<i>Totals</i>
OPERATING REVENUES			
Charges for services	\$ 452,543	\$ 84,480	\$ 537,023
Other	20,193	-	20,193
Total operating revenues	472,736	84,480	557,216
OPERATING EXPENSES			
Contracted services	230,693	-	230,693
Personnel costs	19,621	69,922	89,543
Professional fees	17,127	2,010	19,137
Utilities	12,025	1,800	13,825
Telephone and other	9,154	10,518	19,672
Depreciation	235,694	-	235,694
Total operating expenses	524,314	84,250	608,564
Operating income (loss)	(51,578)	230	(51,348)
NONOPERATING REVENUES (EXPENSES)			
Hook-up charges	138,505	-	138,505
Developer contributions	33,900	-	33,900
Interest income	316,042	1,813	317,855
Interest expense	(458,067)	-	(458,067)
Total nonoperating revenues	30,380	1,813	32,193
CHANGES IN NET ASSETS	(21,198)	2,043	(19,155)
NET ASSETS - BEGINNING	9,252,151	53,327	9,305,478
NET ASSETS - ENDING	\$ 9,230,953	\$ 55,370	\$ 9,286,323

See notes to the financial statements

Township of Ontwa
STATEMENT OF CASH FLOWS - proprietary funds
Year ended March 31, 2006

	Business-type activities		
	Enterprise funds		
	Sewer	Non-major	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 472,243	\$ 84,480	\$ 556,723
Payments to vendors and suppliers	(258,519)	(17,537)	(276,056)
Payments to employees	(19,568)	(63,646)	(83,214)
Net cash provided by operating activities	194,156	3,297	197,453
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessment principal received	630,974	-	630,974
Special assessment interest received	319,027	-	319,027
Decrease in amounts due from County	12,746	-	12,746
Proceeds from issuance of debt	6,735,992	-	6,735,992
Payment to refund debt	(8,098,564)	-	(8,098,564)
Principal reduction of long-term debt	(500,000)	-	(500,000)
Debt issuance costs	(133,990)	-	(133,990)
Interest paid	(471,620)	-	(471,620)
Decrease in accounts payable	(69,781)	-	(69,781)
Net cash used in capital and related financing activities	(1,575,216)	-	(1,575,216)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	47,530	1,813	49,343
NET INCREASE (DECREASE) IN CASH	(1,333,530)	5,110	(1,328,420)
CASH - BEGINNING (including restricted cash of \$3,064,179 in the Sewer Fund)	3,137,302	58,575	3,195,877
CASH - ENDING (including restricted cash of \$1,634,767 in the Sewer Fund)	\$ 1,803,772	\$ 63,685	\$ 1,867,457

See notes to the financial statements

Township of Ontwa**STATEMENT OF CASH FLOWS - proprietary funds (Continued)**

Year ended March 31, 2006

	Business-type activities		
	Enterprise funds		
	Sewer	Non-major	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (51,578)	\$ 230	\$ (51,348)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	235,694	-	235,694
Decrease in:			
Receivables, net	12,023	-	12,023
Increase (decrease) in:			
Payables	(1,983)	3,067	1,084
Net cash provided by operating activities	<u>\$ 194,156</u>	<u>\$ 3,297</u>	<u>\$ 197,453</u>
Noncash capital and related financing activities:			
Capital assets acquired	\$ (33,900)	\$ -	\$ (33,900)
Less, in-kind developer contributions	<u>33,900</u>	<u>-</u>	<u>33,900</u>
Net cash used	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to the financial statements

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Ontwa, Cass County, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity.

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

The Township is a sponsoring member of the Township of Ontwa-Edwardsburg Police Department and the Township of Ontwa-Edwardsburg Ambulance Service. The Township appoints two members to each joint venture's governing board, and, the Township provides annual financial support to each entity. The Township does not retain an equity interest in either entity, and, accordingly, these entities are not considered includable in these financial statements. Financial information of the joint ventures is available from their respect offices in Edwardsburg, Michigan.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund accounts for special voted taxes levied to support operating costs of police services.

The Ambulance Fund accounts for special voted taxes levied to support operating costs of ambulance services.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the Township's sewage system and treatment plant.

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iii) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 50 years
Furniture, fixtures, and equipment	5 - 15 years
Roads	20 years
Sewer system	50 years

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

v) Property tax recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the District. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Township incurred the following significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	Police	\$ 171,240	\$ 174,361	\$ 3,121
Police	Public safety	Police	\$ 157,062	\$ 164,595	\$ 7,533
Ambulance	Health & welfare	Ambulance	\$ 157,062	\$ 164,595	\$ 7,533

NOTE 3 - CASH AND INVESTMENTS:

The Township's cash and investments as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Totals</u>
Cash	\$ 446,307	\$ 232,690	\$ 678,997
Restricted cash	-	1,634,767	1,634,767
	<u>\$ 446,307</u>	<u>\$ 1,867,457</u>	<u>\$ 2,313,764</u>

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (continued):

Cash consists of the following:

Deposits	\$ 2,277,185
Investments	<u>36,579</u>
	<u>\$ 2,313,764</u>

a) Deposits:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. All deposits are with a single financial institution in the State of Michigan.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At March 31, 2006, \$3,511,134 of the Township's bank balances of \$3,611,134 was exposed to custodial credit risk because it was uninsured. The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

b) Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three highest rate classifications by at least two national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds holding investments allowable by state statute. Not more than 50% of any fund may be invested in commercial paper.

The sole investment consists of Cadre Liquid Asset Fund - U.S. Government Series (CIITUS), a qualified mutual fund, which is not subject to disclosures regarding interest rate risk, credit risk, or custodial credit risk. In July 2006, the holding was liquidated at its then current value.

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual funds are as follows. All amounts shown are considered fully collectible.

	<u>Taxes</u>	<u>Accounts</u>	<u>Inter- govern- mental</u>	<u>Special assess- ments</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:						
General	\$ 10,096	\$ 7,800	\$ 53,830	\$ -	\$ -	\$ 71,726
Police	10,690	-	-	-	-	10,690
Ambulance	10,690	-	-	-	-	10,690
	<u>\$ 31,476</u>	<u>\$ 7,800</u>	<u>\$ 53,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,106</u>
Proprietary funds:						
Sewer	<u>\$ -</u>	<u>\$ 57,613</u>	<u>\$ 167,418</u>	<u>\$ 4,666,893</u>	<u>\$ 188,281</u>	<u>\$ 5,080,205</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,418</u>	<u>\$ 4,304,431</u>	<u>\$ -</u>	<u>\$ 4,471,849</u>

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Depreciable assets:				
Building	\$ 384,181	\$ -	\$ -	\$ 384,181
Equipment	33,689	9,289	-	42,978
Streets	-	46,307	-	46,307
Subtotal	<u>417,870</u>	<u>55,596</u>	<u>-</u>	<u>473,466</u>
Less accumulated depreciation for:				
Building	53,785	7,684	-	61,469
Equipment	17,226	4,771	-	21,997
Streets	-	1,737	-	1,737
Subtotal	<u>71,011</u>	<u>14,192</u>	<u>-</u>	<u>85,203</u>
Total capital assets being depreciated, net	346,859	41,404	-	388,263
Other assets - land	<u>7,350</u>	<u>-</u>	<u>-</u>	<u>7,350</u>
Governmental activities capital assets, net	<u>\$ 354,209</u>	<u>\$ 41,404</u>	<u>\$ -</u>	<u>\$ 395,613</u>
Business-type activities:				
Sewer system	\$ 11,759,258	\$ 33,900	\$ -	\$ 11,793,158
Less accumulated depreciation	<u>740,820</u>	<u>235,694</u>	<u>-</u>	<u>976,514</u>
Business-type activities capital assets, net	<u>\$ 11,018,438</u>	<u>\$ (201,794)</u>	<u>\$ -</u>	<u>\$ 10,816,644</u>

Depreciation expense was charged to governmental activities programs of the Township as follows:

General government	\$ 12,455
Public works	<u>1,737</u>
	<u>\$ 14,192</u>

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables as of year end for the government's individual funds, are as follows.

	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- govern- mental</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:					
General	\$ 6,182	\$ 7,914	\$ -	\$ -	\$ 14,096
Police	-	-	10,690	-	10,690
Ambulance	-	-	10,690	-	10,690
Total	<u>\$ 6,182</u>	<u>\$ 7,914</u>	<u>\$ 21,380</u>	<u>\$ -</u>	<u>\$ 35,476</u>
Proprietary funds:					
Sewer	\$ 5,670	\$ 1,231	\$ 5,910	\$ 157,047	\$ 169,858
Non-major proprietary fund	<u>690</u>	<u>7,625</u>	<u>-</u>	<u>-</u>	<u>8,315</u>
Total	<u>\$ 6,360</u>	<u>\$ 8,856</u>	<u>\$ 5,910</u>	<u>\$ 157,047</u>	<u>\$ 178,173</u>

NOTE 7- DEFERRED REVENUE:

Deferred revenue recorded in governmental funds as of March 31, 2006, represents the portion of cable franchise fees receivable that are considered unavailable to liquidate liabilities of the current period.

NOTE 8 - LONG-TERM OBLIGATIONS:

Long-term obligations consist of the following contracts payable to Cass County, issued in connection with sewer system improvements and expansion. All debt is secured by the full faith and credit of the Township

	<u>Face amount</u>	<u>Due in one year</u>
2000 \$10,750,000 contract, bearing interest at 5.00% to 7.00%, due in annual installments of \$300,000 to \$800,000, plus interest, through May 2019 originally, now May 2008	\$ 1,000,000	\$ 500,000
2004 \$1,097,124 contract, bearing interest at 4.00% to 4.90%, due in annual installments of \$100,000 to \$150,000, plus interest, through May 2024	1,097,124	42,360
2005 \$6,565,000 refunding contract, bearing interest at 3.50% to 4.75%, due in annual installments of \$485,000 to \$640,000, beginning in May 2008, plus interest, through May 2019	<u>6,565,000</u>	<u>-</u>
	<u>\$ 8,662,124</u>	<u>\$ 542,360</u>

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS (Continued):

Changes in long-term obligations during the year ended March 31, 2006, were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Proprietary fund:				
Sewer:				
2000 \$10,750,000 contract payable	\$ 9,350,000	\$ -	\$ (8,350,000)	\$ 1,000,000
2004 \$1,097,124 contract payable	1,097,124	-	-	1,097,124
2005 \$6,565,000 refinancing contract payable	-	6,565,000	-	6,565,000
	<u>10,447,124</u>	<u>6,565,000</u>	<u>(8,350,000)</u>	<u>8,662,124</u>
Contract discount	(73,881)		50,408	(23,473)
Contract premium	-	170,992	(17,846)	153,146
Loss on refunded contract	-	(354,391)	36,987	(317,404)
	<u>(73,881)</u>	<u>(183,399)</u>	<u>69,549</u>	<u>(187,731)</u>
	<u>\$ 10,373,243</u>	<u>\$ 6,381,601</u>	<u>\$ (8,280,451)</u>	<u>\$ 8,474,393</u>

During the year ended March 31, 2006, the Township refinanced \$7,850,000 of the 2000 contract, using a new contract in the amount of \$6,565,000. The net proceeds of \$6,602,002 (after payment of underwriting fees and other issuance costs of \$133,990) plus an additional \$1,496,562 in cash were used in the refinancing.

Although the refinancing resulting in the recognition of an accounting loss of \$354,391, the Township in effect reduced its aggregate debt service payments by \$1,025,857 through 2020 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$266,594.

At June 30, 2005, debt service requirements were as follows:

<u>March 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 542,360	\$ 380,313
2008	542,360	348,994
2009	544,478	313,132
2010	547,950	293,153
2011	537,950	272,660
2012 - 2016	2,951,520	1,016,244
2017 - 2021	2,747,700	329,578
2022 - 2025	<u>247,806</u>	<u>23,468</u>
	<u>\$ 8,662,124</u>	<u>\$ 2,977,542</u>

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - RISK MANAGEMENT:

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$7,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

The Township is involved in sewer special assessment appeals by two mobile home park owners. The total amount under appeal is approximately \$410,000. The Township and outside counsel believe that there is no merit to the suit and intend to defend it vigorously. Based on the facts known to date, it is not possible to determine the likelihood of an unfavorable outcome, and, accordingly, no provision for any liability that may result has been recorded in the accompanying financial statements.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS:

During the year ended March 31, 2006, the Township recorded the following prior period adjustments to correct the understatement of certain governmental activities assets and liabilities, and, the omission of the business-type net assets of the sewer activity, and, where applicable, the corresponding fund understatements. An adjustment has also been recorded to reclassify the building inspection net assets from governmental activities to business-type activities, due to its reliance upon service charges to cover all operating costs, and, the corresponding Building Inspection Fund was reclassified from a governmental fund to a proprietary fund-type.

	<i>Governmental activities</i>	<i>Business- type activities</i>	<i>Total</i>
As previously reported	\$ 715,548	\$ -	\$ 715,548
Prior period adjustments:			
Understatement of assets:			
Current	97,227	758,110	855,337
Noncurrent	-	19,179,770	19,179,770
Understatement of liabilities:			
Current	(18,224)	(812,486)	(830,710)
Noncurrent	-	(9,873,243)	(9,873,243)
Reclassification	(53,327)	53,327	-
Total adjustments	25,676	9,305,478	9,331,154
As restated	\$ 741,224	\$ 9,305,478	\$ 10,046,702

Township of Ontwa
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - PRIOR PERIOD ADJUSTMENTS (Continued):

	<u>General Fund</u>	<u>Building Inspection Fund</u>	<u>Sewer Fund</u>
As previously reported	\$ 302,764	\$ 58,575	\$ -
Prior period adjustments:			
Cash, unrestricted	38,653	-	73,556
Cash, restricted			3,063,746
Receivables, current	58,574	-	684,554
Receivables, noncurrent	-	-	4,963,403
Capital assets, net	-	-	11,018,438
Deferred charges	-	-	134,183
Payables	(20,776)	(5,248)	(312,486)
Long-term debt, current	-	-	(500,000)
Long-term debt, noncurrent	-	-	(9,873,243)
	<u>76,451</u>	<u>(5,248)</u>	<u>9,252,151</u>
As restated	\$ 379,215	\$ 53,327	\$ 9,252,151

SUPPLEMENTARY INFORMATION

Township of Ontwa
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 134,454	\$ 133,954	\$ 140,898	\$ 6,944
State grants	312,600	312,600	332,181	19,581
Fines and forfeitures	10,000	10,000	12,333	2,333
Licenses and permits	30,180	32,201	37,264	5,063
Charges for services	12,300	12,600	26,358	13,758
Interest and rentals	600	600	22,560	21,960
Total revenues	<u>500,134</u>	<u>501,955</u>	<u>571,594</u>	<u>69,639</u>
EXPENDITURES				
Legislative	<u>9,500</u>	<u>9,500</u>	<u>7,233</u>	<u>2,267</u>
General government:				
Supervisor	32,800	32,800	20,452	12,348
Elections	12,400	12,400	3,084	9,316
Assessor	29,100	27,600	28,081	(481)
Clerk	24,140	24,140	20,568	3,572
Board of Review	3,100	3,100	2,582	518
Treasurer	24,140	24,140	23,448	692
Hall and grounds	24,850	24,850	14,374	10,476
Cemetery	1,000	1,000	1,000	-
Other	<u>105,640</u>	<u>105,640</u>	<u>94,845</u>	<u>10,795</u>
Total general government	<u>257,170</u>	<u>255,670</u>	<u>208,434</u>	<u>47,236</u>
Public safety:				
Police	<u>171,240</u>	<u>171,240</u>	<u>174,361</u>	<u>(3,121)</u>
Public works:				
Highways and streets	92,000	92,000	46,307	45,693
Solid waste management	9,000	9,000	6,926	2,074
Street lighting	<u>6,000</u>	<u>6,000</u>	<u>6,453</u>	<u>(453)</u>
Total public works	<u>107,000</u>	<u>107,000</u>	<u>59,686</u>	<u>47,314</u>

Township of Ontwa

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture	\$ 5,000	\$ 5,000	\$ 815	\$ 4,185
Community and economic development: Planning and zoning	<u>14,750</u>	<u>14,750</u>	<u>4,143</u>	<u>10,607</u>
Total expenditures	<u>564,660</u>	<u>563,160</u>	<u>454,672</u>	<u>108,488</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(64,526)	(61,205)	116,922	178,127
FUND BALANCES - BEGINNING	<u>379,215</u>	<u>379,215</u>	<u>379,215</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 314,689</u>	<u>\$ 318,010</u>	<u>\$ 496,137</u>	<u>\$ 178,127</u>

Township of Ontwa
BUDGETARY COMPARISON SCHEDULE - Police Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 157,062	\$ 157,062	\$ 164,595	\$ 7,533
EXPENDITURES				
Public safety	<u>157,062</u>	<u>157,062</u>	<u>164,595</u>	<u>(7,533)</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-	-
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Township of Ontwa
BUDGETARY COMPARISON SCHEDULE - Ambulance Fund
Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 157,062	\$ 157,062	\$ 164,595	\$ 7,533
EXPENDITURES				
Health and welfare	<u>157,062</u>	<u>157,062</u>	<u>164,595</u>	<u>(7,533)</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-	-
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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November 10, 2006

Board of Trustees
Township of Ontwa, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Township of Ontwa, Cass County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the basic financial statements of the Township of Ontwa, Cass County, Michigan, we considered the Township's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 10, 2006, on the financial statements of the Township of Ontwa, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with certain Township officials, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Sincerely,

Siegfried Crandall P.C.

COMMENTS AND RECOMMENDATIONS

Record payroll in the General Fund and record a reimbursement from the other funds for gross payroll and related payroll taxes and fringe benefits.

Reclassify the building inspection activity into the General Fund and recognize restricted fund equity for revenues in excess of costs.

Consider use of a common checking for all funds and for monies not subject to segregation by debt covenants.

Transfer the total amount billed for debt service into the restricted cash account in the month billing occurs, rather than tracking and accumulating individual receipts.

Transfer to the Village of Edwardsburg and Mason Township the amount billed on their behalf for debt retirement in the month billing occurs, rather than tracking and accumulating individual receipts.

Collections on special assessments should be classified as to the nature of the receipt - interest and principal from the annual billing should be recorded separately, as should up-front principal payments in full and additional principal collections.

The annual billing for the long-term special assessments should be generated from the special assessment program, so as to contain enough information to permit proper classification of principal and interest, to identify which year's payment is being assessed (1 of 20 or 6 of 20, etc.), the payoff balance, and the interest rate.

**Board of Trustees
Township of Ontwa
Cass County, Michigan**

In planning and performing our audit of the basic financial statements of the Township of Ontwa, for the year ended March 31, 2006, we considered the Township's internal control structure in order to determine our auditing procedures for the purposes of expressing our opinions on the financial statements and not to provide assurance on the internal control. Our assessment of the internal control was limited to obtaining and understanding of the internal control sufficient to plan our audit and did not include tests of controls. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

- There is inadequate segregation of duties between the Clerk and Treasurer, as the Treasurer maintains the general ledger and has responsibility for cash receipts and the bank reconciliations. The Township should obtain the resources necessary to allow the Clerk to resume responsibility for a general ledger that is current, accurate and complete.
- The general ledger of each fund reflects only one balance sheet account, cash. Other assets (including investments) and liabilities are not recorded. Without recognition of assets other than cash and of liabilities, accountability over subsequent changes therein cannot be demonstrated.
- Checks issued at certain times to other funds from the Tax Collection are not recorded as receipts in the same month as issued. The Tax Collection Fund acts as agent for other funds - there should not be a delay of even one day between disbursement and receipt, as this results in understating the financial position of the receipting fund.
- The payroll module has withheld incorrect amounts of Social Security and Medicare from the pay of certain employees in 2005 and in 2006. The correct amounts were paid into Social Security and Medicare, however the 2005 W-2 and W-3 reflect the actual incorrect amounts withheld.
- Periodic reports available from the special assessment billing program are not prepared. Such reports assist in supporting the receivable balance to be reported, and assist in evaluating assessments added, collections (including principal and interest), and adjustments.

- Month-end reports from the utility billing and collection program for the month of January 2006 were not retained. The month-end report provides support for the month end balance, and assist in evaluating current month billing, collections and adjustments.
- Invoices are not annotated for approval. Evidence of approval documents accountability for expenditures, and assists in demonstrating effective segregation of duties.
- The annual budget is not adopted until after the start of the fiscal year. State statutes require that the annual budget be in place (adopted) prior to the first day of the fiscal year (April 1).
- Budget amendments are not developed for changes in the receipt and use of allocated taxes for police and ambulance activities.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in an amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we believe that all of the reportable conditions noted to be material weaknesses.

This report is intended solely for the information and use of the Township Board of Trustees, management, others within the Township and Department of Treasury of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.

November 10, 2006